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SUBJECT: ECUADOR ECON WEEKLY: ATPA; 2008 BUDGET; NEW LAWYERS IN OXY
CASE

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

PRESIDENT CORREA ON ATPA RENEWAL

¶2. (SBU) During his weekly radio address on August 25 President Correa reiterated some of his previously used discourse on the Andean Trade Preference Act (ATPA). He asserted that Ecuador is entitled to ATPA benefits in exchange for fighting drug trafficking and suggested that if the ATPA program is not extended, the GOE could compensate exporters for the \$50 million in trade benefits they would lose each year (the ATPA program is due to expire in February 2008). Correa repeated rhetoric he has used before, saying that ATPA benefits are not "alms," and that Ecuador "would not get down on its knees to beg" for renewal -- a reference to the ATPA lobbying campaign by the Ecuadorian public and private sector in May and June.

¶3. (SBU) The Ecuadorian business community immediately responded to Correa's comments by urging the government to define a positive trade agenda with Ecuador's largest trading partner. The Foreign Minister was quick to assert that the GOE was in fact interested in some form of long-term trade agreement with the U.S., and planned to pursue a dialogue along those lines. Commentators were critical of the suggestion that the GOE could compensate exporters for the loss of ATPA benefits. President of the Ecuadorian Business Committee, Patricio Donoso, claimed it would make the export sector less competitive. Trade researcher and former GOE trade official Manuel Chiriboga noted that compensation could be challenged as an illegal export subsidy under the WTO and be subject to U.S. fair trade rules. The Embassy took the opportunity to remind private and government contacts that lobbying is an accepted procedure in a democracy and enables the parties to exchange valuable information.

2008 BUDGET

¶4. (U) The Ministry of Economy and Finance submitted its proposed 2008 budget to Congress on September 1. Congress will have until the end of November to approve the budget. Proposed expenditures would total \$10.36 billion, while the projected deficit would be \$855 million. The government focused on the budget's increased allocation for social spending and its plan to reduce debt servicing from 25% of the budget in 2007 to 20% in 2008. Economy Minister Fausto Ortiz defended the budget deficit as manageable (less than 2%

of GDP) and said it would be used to stimulate demand in the face of falling consumption and private investment. The GOE plans to cover much of the deficit with financing from the Andean Development Corporation (CAF) and the Interamerican Development Bank (IDB). Jaime Carrera of the NGO Fiscal Policy Observatory criticized the budgeted 13% increase in current expenditures and 23% increase in salaries.

ECUADOR HIRES NY LAW FIRM IN OXY CASE

15. (U) The GOE hired New York law firm LeBoeuf, Lamb, Greene & MacRae from among three companies bidding to represent it in the Occidental Petroleum arbitration case. LeBoeuf has prior experience in energy sector cases and United Nations Commission on International Trade Law (UNCITRAL) arbitrations. LeBoeuf's legal team will be led by partners Eric Schwartz and Derek C. Smith, who both have extensive experience in international disputes. Schwartz was formerly Secretary General of the Court of International Arbitration of the International Chamber of Commerce. Ecuador's \$5.9 million contract with LeBoeuf is valid while the arbitration process continues, an estimated two to three years.

JEWELL